

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGR-10 CEA-01
CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-02 EPG-02 AID-05
SS-15 STR-04 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02
OMB-01 /120 W

-----080033Z 071590 /63

R 071051Z MAY 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 2576

INFO ALL EC CAPITALS

USMISSION EC BRUSSELS

USMISSION GENEVA

UNCLAS PARIS 13544

E.O. 11652: N/A

TAGS: ETRD FR GATT

SUBJECT: FRENCH EXPORT INFLATION INSURANCE

1. THE GOF HAS DECIDED TO MODIFY ITS SYSTEM OF INSURING
MAJOR EXPORT CONTRACTS AGAINST INFLATION ACCORDING TO
LE MONDE OF MAY 5. OUR CONTACTS AT THE MINISTRY OF
FOREIGN TRADE CONFIRM THE ACCURACY OF LE MONDE REPORT.
DETAILS AS FOLLOWS:

2. PRESENT GOF INSURANCE COVERS THE RISK OF "ABNORMAL"
COST INCREASES ON CONTRACTS FOR EXPORT OF CAPITAL GOODS,
CONCLUDED AT A FIRM PRICE AND FOR WHICH DELIVERY WILL
TAKE MORE THAN ONE YEAR. THE PERIOD COVERED RUNS FROM
SIX MONTHS BEFORE THE DATE OF THE CONTRACT UNTIL THE
WORK IS COMPLETE. THE PREMIUM CHARGED IS ONE PER CENT
OF THE CONTRACT. THE "NORMAL" INCREASE IN COSTS WHICH
HAS TO BE BORNE BY THE FIRM IS 6.5 PER CENT PER YEAR.
THE ESTIMATED COST OF THE PROGRAM FOR 1977 IS 2.5
BILLION FRANCS (ROUGHLY \$500 MILLION).
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3. BECAUSE PROGRAM HAS INFLUENCED FIRMS TO NEGLECT
LABOR COSTS AND THUS CONTRIBUTED TO INFLATIONARY PRES-
SURES IN FRANCE, BECAUSE FRANCE'S COMPETITORS HAVE
COMPLAINED AND BECAUSE THE TAXPAYERS HAVE FINANCED
ABOUT 10 PER CENT OF EXPORTS UNDER THE PROGRAM, SOME
CHANGES HAVE BEEN PREPARED.

4. FROM NOW ON FIRMS MUST PAY AN EXTRA PREMIUM EQUAL TO ONE THIRD OF THE RATE OF DEPRECIATION OF THE FRANC RELATIVE TO SDRS. IN CALCULATING INDEMNITY TO BE PAID WHEN COSTS INCREASE MORE THAN 6.5 PER CENT, THE GOF WILL USE THE INSEE PRICE INDEX (COST OF LIVING INDEX) INSTEAD OF THE INDEX OF SALARY PROGRESSION. THIRTY PER CENT OF THE DIFFERENCE BETWEEN THE TWO INDICES WILL BE ADDED TO THE INSEE INDEX.

5. LE MONDE BELIEVES THESE NEW MEASURES WILL NOT REDUCE THE COST OF THE PROGRAM AND DO NOT REPRESENT A SIGNIFICANT DEPARTURE FROM THE EXISTING SYSTEM. WE ARE INCLINED TO AGREE. THE GOF HAD DECIDED IN 1975 TO REDEFINE "NORMAL" COST INCREASES AT NINE PER CENT, BUT THAT DECISION HAS NOT BEEN APPLIED AND WILL NOT BE APPLIED IN THE FORSEEABLE FUTURE.
GAMMON

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